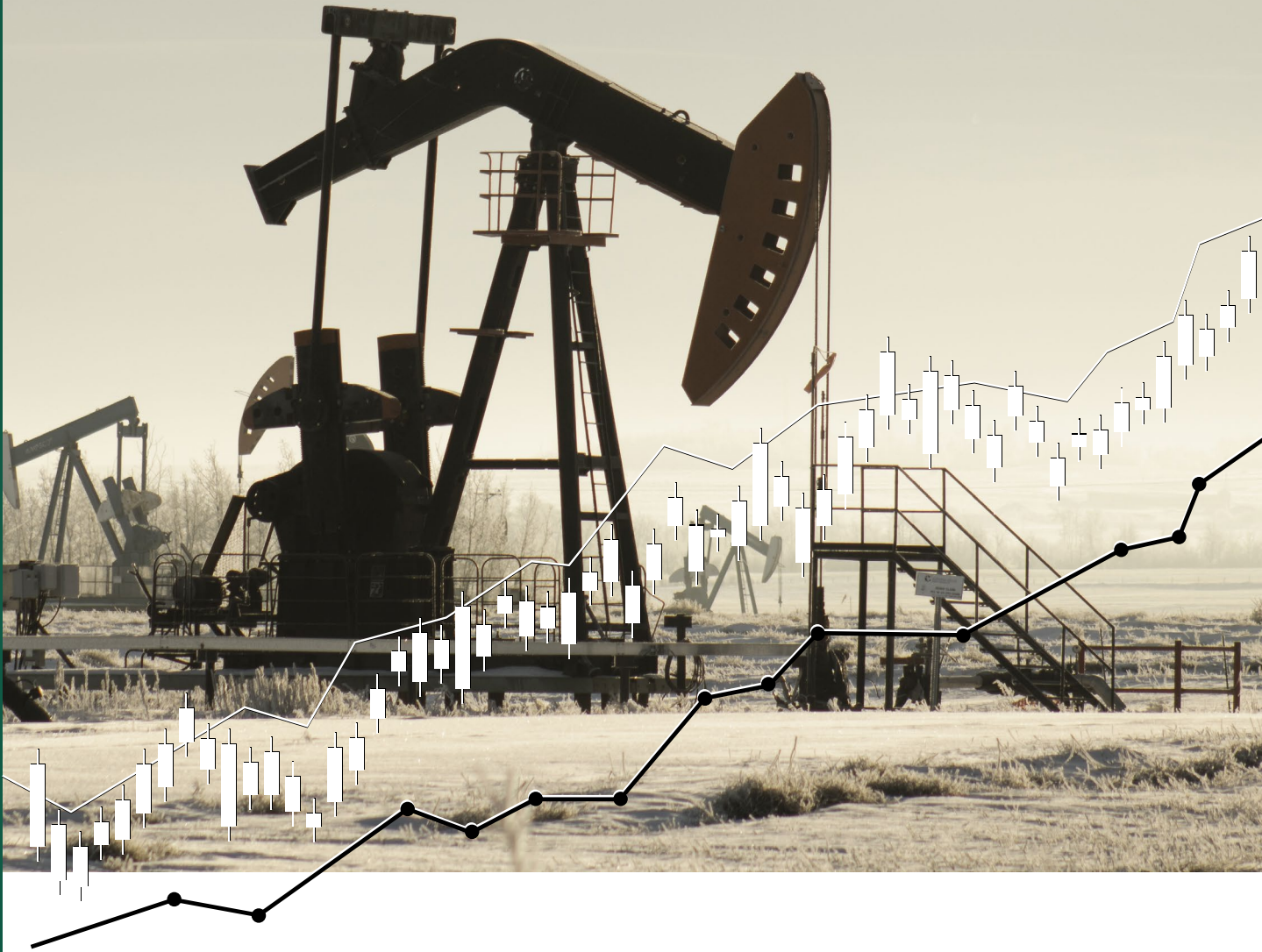




DME

FUTURES INSIGHTS

Issue 21 - Jan 2021



\$

\$50.00

OSP



8.796
MILLION BARRELS

TOTAL
DELIVERY



95,415
CONTRACTS

TOTAL
EXCHANGE
VOLUME



4,337
CONTRACTS

ADV



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Faced with the covid-19 global pandemic, oil markets recorded one of the most tumultuous years on record. This paper summarizes the highs and lows for oil prices in 2020.

DME Oman (monthly average)

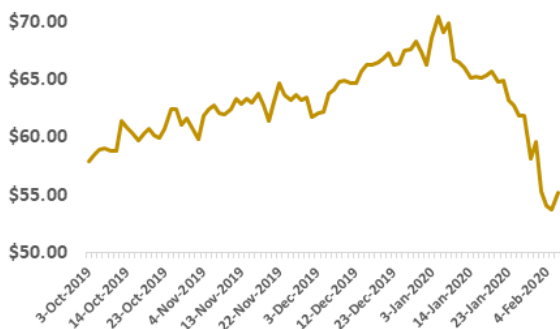


Q1 – Covid-19 arrives, prices tumble

January

The first murmurings of a new coronavirus spreading across Asia brought the sustained Q4 2019 price rally to a shuddering halt. The first week of January saw DME Oman hit a 7-month high of over \$70/barrel. As falling demand fears swept the market, oil prices went into sharp decline, ending the month at sub-\$60/b and dipping below \$55/b at the start of February.

DME Oman front-month



February

Middle East crude oil prices slumped below \$50 per barrel for the first time since August 2017, as demand concerns over the coronavirus pandemic weighed heavily on the oil markets. April-loading Oman expired at \$49.11/b, more than \$10/b down on the March contract expiry, or around 18%. Meanwhile, Middle East crude markets moved into sustained contango for the first time since 2017, particularly during the second half of February.

March

Global demand destruction continued to rip through the oil sector as forecasters said the pandemic would wipe out at least 25 million barrels per day of prompt demand, or around 25%. This caused the largest-ever monthly losses in oil prices – even outpacing the oil-price collapse of 2008. Russia’s failure to agree to production cuts at the OPEC+ meeting in March accentuated the price fall, which saw a drop of more than \$25/b on the month, or over 50%. Immediately following the failure of the OPEC+ proposal, oil

prices recorded their worst week since 1991 in percentage terms.

DME Oman front-month



Q2 – Rock bottom and rebound

April

Oil prices slumped to the lowest levels of the 21st century as the covid-19 pandemic led to a wave of lockdowns, further slashing global demand. DME Oman hit a low of \$16.82/b, before oil markets rallied in response to the record OPEC+ deal to take around 10% of production out of the market – lifting prices back to \$26/b by the end of the month.

Oil benchmarks came under extreme duress during this period, including European Dated Brent falling to steep discounts against Brent futures, while in the U.S. both physical and futures crude prices briefly turned negative. Additionally, Middle East physical prices were trailing DME Oman futures by more than \$5/b at one point. Markets also registered record contango structures, including Oman M1/ M2 averaging minus \$3.50/b during April, sparking a storage bonanza.

May

Oman oil prices rallied sharply throughout May on a combination of the record cuts from the OPEC+ group of producers and end-user demand returning faster than anticipated. From the low of \$16.82/barrel in late April, Oman prices rallied nearly 150% to over \$40/b in early June. In particular, Chinese buying ramped up as consumption returned to pre-coronavirus levels and refiners made the most of low prices to build inventory.

DME Oman front-month



June

Oil prices continued to stabilize throughout June with DME

Oman consolidating above \$40/b as the upturn in demand combined with the production cuts continued to rebalance market dynamics. DME Oman for August delivery averaged \$41.58 per barrel, an increase of \$7.90/b from May's average of \$33.68/b. In terms of expiry vs expiry, Oman closed at \$42.11, up from \$35.09/b at the end of May.

Q3 – Calm and stability

July

Oil benchmarks consolidate in the low/mid \$40s during July, supported by more robust compliance on the OPEC+ production cuts, plus demand edging higher. A further build in Chinese inventories was offset by record refinery output of over 14 million b/d.

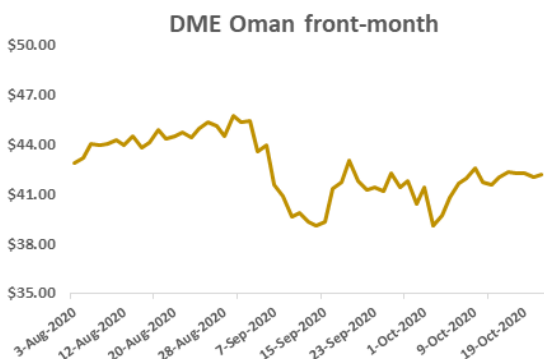
August

Oil prices remained locked in a narrow range moving into August, as DME Oman for October-loading hovered around the \$44/b level. Prices were underpinned by high levels of compliance among the OPEC+ group of producers.

September

DME Oman oil prices recovered from the sub-\$40 per barrel levels at the start of the month on a combination of hurricane-induced production cuts in the U.S. Gulf and North Sea shut-ins due to a strike by Norwegian offshore workers.

While both of these events were relatively short-lived as market movers, the combination was enough to shore up market confidence and reverse the bearish sentiment present at the end of September.



Q4 – Vaccines and upwards momentum

October

Oil prices retreated for second consecutive month following demand concerns after another wave of lockdowns in Europe. Prices had been holding comfortably in the \$40+ per barrel range, before the late-month sell off dragged prices to their lowest levels since late May. Additionally, the ramp up in Libyan output and increased U.S. rig count added to the weaker sentiment.

November

News of several vaccines against covid-19 boosted prices throughout the month, closing at \$47.85, or up by more than \$11/b from the start of the month. The November 2 DME Marker Price of \$36.67/b was a five-month low, but prices rebounded strongly on news of the first successful trials for a covid-19 vaccine announced in early November.

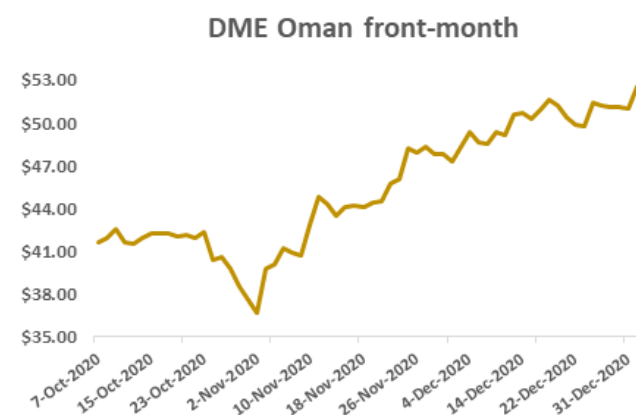
December

The OPEC+ producer group faced another crunch meeting at the start of December, amid reports of a potential fracturing of the alliance with some members pushing for the 2 mil b/d increase from January.

OPEC and its producer allies agreed on a more modest increase, and as part of the deal will meet once a month to review conditions with the aim of keeping the market in balance.

Prices continued to recover for the remainder of the month, reaching fresh 9-month highs and marking the eight consecutive weekly gains.

Oil traders again focused on the rollout of covid-19 vaccines, the U.S. stimulus package and the weaker U.S. dollar shrugging off demand concerns over new covid restrictions in Europe and the U.S.



Annual price slump

DME Oman averaged \$43.16/b in 2020, more than \$20/b down on the 2019 average of \$63.96/b. Over the longer term, Oman averaged \$77.70/b in the 2010s, compared to the average selling price for Oman of \$46.94/b in the 2000s and a 1990s average of \$17.12/b.

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